INVESTMENT MANAGEMENT

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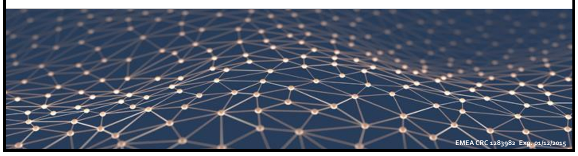
Protecting Capital in a Rising Rates Environment

Richard Ford, Portfolio Manager, Global Fixed Income Team



EMEA CRC 1283982 Exp. 01/12/2015

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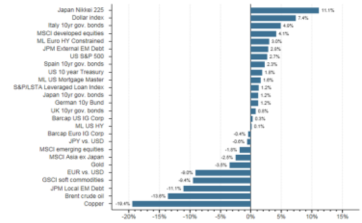
Tracking Performance Across Assets (2015)

Asset Performance in 2015
Returns Through October 30, 2015



Source: Thomson Reuters DataStream

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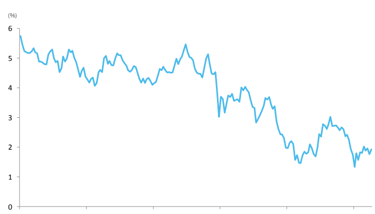
10 Year UK Government Bond yields



Source: Barclays. Data as of October 30, 2015

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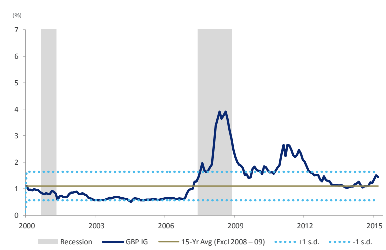
Sterling Investment Grade Spread



Source: Barclays. Data as of October 30, 2015

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Assumptions and Risks

- The Fed to proceed gradually and the ECB to continue QE (monetary conditions to remain easy)
- Currencies are the Central Bankers transmission mechanism to meet goals
- Developed country economic expansion to continue
- Inflationary forces to remain muted but not go away
- Emerging markets to remain volatile (including China) amidst rebalancing
- China will not turn into systemic risk factor, nor will commodity prices implode
- Volatility to continue!

Source: Morgan Stanley Investment Management, as at October 30, 2015
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Opportunities

- Economically sensitive assets to outperform
- Government bonds in core countries in broad yield range, need to tactically trade
- Satellite countries (NZ, Australia, Spain, Hungary) better value than core
- IG and HY selectively attractive
- EM will struggle to outperform; external better than local
- Convertibles on compression in risk premium
- USD strength (if Fed hikes)

Source: Morgan Stanley Investment Management, as at October 30, 2015

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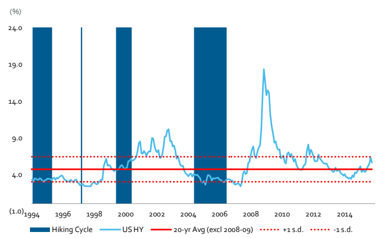
U.S. High Yield Spread

- No clear relationship between Fed rate hikes and performance of high yield



Source: Barclays. Data as of October 30, 2015

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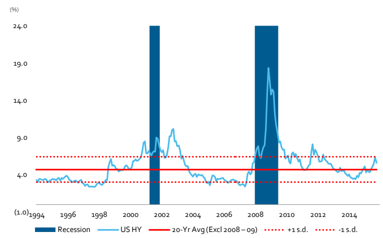
U.S. High Yield Spread (cont'd)

- Recessions, on the other hand, are unequivocally bad



Source: Barclays. Data as of October 30, 2015

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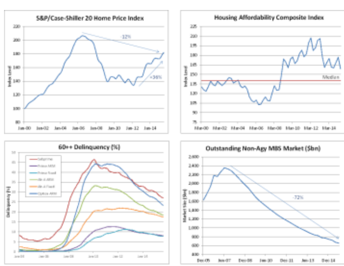
U.S. Non-Agency RMBS Fundamentals Improving

- Home prices measured by Case-Shiller have risen 35% from the trough in 2012, but remain 12% below their peak in 2006.
- Home affordability remains above the historic median, giving home prices potential room to increase.
- Mortgage delinquencies across all non-agency sectors continue to decline due to rising home prices and an improving economy.
- Outstanding non-agency RMBS has declined by more than two-thirds at the end of 2014 from the peak reached in 2007, and will continue to shrink – a strong technical factor supporting the sector.



Source: Bloomberg, Credit Suisse, SIFMA, as of September 30, 2015

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Why Unconstrained Fixed Income?

We believe three factors are contributing to a climate change in the fixed income market

- We believe the time has come to think differently about fixed income
- The bond market climate has changed and the ability to respond to this change will be crucial
- An unconstrained strategy offers a broad range of potential investment opportunities without the limitations of tracking a benchmark

1. The 30-year bull market has ended

- Falling rates used to provide a cushion of returns
- Risk of higher rates generating negative returns needs to be mitigated
- Today's low yields mean a new strategy is required

2. The environment has changed

- Post the crisis, dealer inventory and liquidity have been reduced
- Very large funds now have fewer investment opportunities
- We believe you need to be "right-sized" to execute on a broad range of trades

3. The time to be passive has passed

- With low yields and limited potential capital gains, a passive approach is sub-optimal
- An active approach, with a focus on capital preservation and using a broad range of instruments is preferred

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Comparing Unconstrained to Traditional Fixed Income

	Traditional Fixed Income	Unconstrained Fixed Income	Alternative Fixed Income
Objective	Excess return	Total return	Absolute return
Benchmark Awareness	Benchmark sensitive	Benchmark agnostic	Benchmark agnostic
Risk Neutral Point	Benchmark	Benchmark/Cash	Cash
Interest Rate Profile	Benchmark +/-	Long	Long/Short
Credit/Spread Risk	Benchmark +/-	Long	Long/Short
Currency Risk	Zero to modestly long or short	Active	Active
Hedging	Manage risk vs. benchmark	Isolate Beta & Alpha opportunities	Isolate Beta & Alpha opportunities
Risk Management Focus	Tracking error	Absolute volatility (standard deviation)	Absolute volatility and drawdown
Instruments	Bonds, select derivatives, no leverage	Bonds, active use of derivatives, no leverage	Bonds, derivatives as a strategy, leverage

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A 'Go Anywhere' Global Fixed Income Approach

- Flexibility to own the best sectors across the whole spectrum of fixed income
- Active asset allocation through the cycle
- Diversification
- Capital preservation over the medium term (annual)
- Attractive return relative to expectations
- Index agnostic

Asset Allocation does not protect an investor against a loss in a particular market; however it allows an investor to spread that risk across various asset classes.

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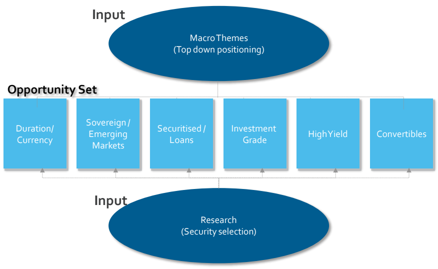
Strategy Go Anywhere – Top Down Approach



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MS INVF Global Fixed Income Opportunities Fund

As of October 30th, 2015

	Effective Duration	Spread Duration	Option Adjusted Spread	Yield to Maturity	Standard Deviation
Portfolio Summary	2.59	3.82	344	4.35	5.16

Sector	NAV %
Credit	**42.3**
Investment Grade Credit	13.5
Emerging Markets Corporate Debt	1.5
High Yield Credit	21.7
Convertible Bonds	5.5
Securitised	**30.2**
Government Bonds	**25.5**
G4* long-dated bonds	4.8
Other Developed Market Governments	10.1
Emerging Markets External Debt	3.5
Emerging Markets Local Currency Debt	7.1
Cash	**2.0**

* Consists of government bonds from US, UK, Germany and Japan

Source: Morgan Stanley Investment Management

1. This information reflects the views of the portfolio management team. These views may change without notice as circumstances or market conditions change. All information is provided for informational purposes only and should not be construed as a recommendation to purchase or sell the securities mentioned.
2. Applications for shares in any Morgan Stanley INVF should not be made without first consulting the current Prospectus, Key Investor Information Document ("KIID"), Annual Report and Semi-Annual Report ("Offering Documents"), or other documents available in your local jurisdiction.

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Glossary of Key Terms

Active – The difference between the Fund and Benchmark position or risk metric

Alpha – The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

Convexity – A measure of the curvature in the relationship between bond prices and bond yields that demonstrates how the duration of a bond changes as the interest rate changes. Convexity is used as a risk-management tool, and helps to measure and manage the amount of market risk to which a portfolio of bonds is exposed.

Duration – A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. **Effective duration** takes into account that expected cash flows will fluctuate as interest rates change.

Option Adjusted Spread – A measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst would use the Treasury securities yield for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond.

SEC Yield - a calculation for determining the amount of portfolio income, excluding non-income items as prescribed by the SEC. Yields are subject to change.

Spread Duration – A measurement of the spread of a fixed-income security rate and the risk-free rate of return.

Standard Deviation – Standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility. Standard deviation is also known as historical volatility and is used by investors as a gauge for the amount of expected volatility.

Barclays Capital Global Aggregate Index –The Global Aggregate Index provides a broad-based measure of the global investment-grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the U.S. Aggregate Index (USD 300 million), the Pan-European Aggregate Index (EUR 300 million), and the Asian-Pacific Aggregate Index (JPY 35 billion). In addition to securities from these three benchmarks (94.9% of the overall Global Aggregate market value), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300 million), Euro-Yen (JPY 35 billion), Canadian (USD 300 million equivalent), and Investment-Grade 144A (USD 300 million) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized sub indices by liquidity constraint, sector, quality, and maturity. The Global Aggregate Index is a component of the Multiverse Index. The Global Aggregate Index was created in 1999, with index history backfilled to January 1, 1990. It is not possible to invest directly in an index.